

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L LIMA 4096

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SUBJECT: MARCONA BUY-OUT NEGOTIATIONS

REF: LIMA 3937, 3956 (NOTAL), 3623 (NOTAL)

1. SUMMARY: MARCONA NEGOTIATING TEAM MET WITH THEIR PERUVIAN COUNTERPARTS FOR FIRST SERIOUS DISCUSSIONS MAY 15 AND CAME AWAY SOMEWHAT ENCOURAGED. HOWEVER, THEIR PLEASURE WAS MITIGATED BY PUBLICATION IN MAY 16 "LA PRENSA" OF MINING COMMUNITY BROADSIDE CALLING FOR RESIGNATION OF MARCONA MANAGEMENT AND MAKING PERSONAL ATTACKS ON THREE TOP MARCONA OFFICIALS. IN MEANTIME, BOTH VICE MINISTER OF ENERGY AND MINES AND JAPANESE DCM HAVE SEPARATELY CONFIRMED THAT GOP HAS MADE A DIRECT APPEAL TO GOJ FOR JOINT PERUVIAN-JAPANESE COOPERATION TO ENSURE THAT MARCONA WILL REMAIN A VIABLE OPERATION AFTER EXPROPRIATION. FURTHER, CIVE MINISTER SAID THAT LEAK OF MARCONA'S NEGOTIATION POSITION TO LOCAL PRESS WAS A SERIOUS ERROR, IMPLYING THAT THIS DEVELOPMENT WILL MAKE IT MORE DIFFICULT FOR GOP TO ACCEPT IT, ALTHOUGH HE ALSO REMAINED OPTIMISTIC THAT FAVORABLE SETTLEMENT WILL EVENTUALLY BE FORTHCOMING. END SUMMARY

2. MARCONA MANAGEMENT TEAM AND PERUVIAN COMMISSION
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HELD FIRST SERIOUS NEGOTIATING SESSION MAY 15. MARCONA

OFFICIALS REPORTED THAT MEETING MADE SOME PROGRESS AND STATED THEY PLEASED WITH RESULTS. THEIR PLEASURE, HOWEVER, WAS MITIGATED BY ARTICLE IN "LA PRENSA" MAY 16 WHICH CALLED FOR RESIGNATION OF MARCONA MANAGEMENT. THE ARTICLE PERSONALLY ATTACKED MANAGER ENRIQUE EAST ("PERUVIAN AT THE SERVICE OF FOREIGN INTERESTS...INVOLVED IN TURNING OVER MARCONA DEPOSITS TO YANKEE IMPERIALISM") RALPH CARWIN ("A MORMON...AND IT SHOULD BE REMEMBERED THAT THE MORMON CHURCH IS PRINCIPAL INVESTOR IN UTAH INTERNATIONAL WHICH IS TURN IS THE OWNER OF MARCONA."), AND HERMAN HALUPKA, MINE MANAGER ("FIGURE OF THIRD ORDER, BUT NONETHELESS COMPROMISED IN THE DARK POLITICS OF THE GROUP."). AFTER READING ARTICLE, EAST CALLED OTONIEL VELASCO, DEPUTY CHIEF OF NATIONAL PLANNING INSTITUTE AND CHIEF MEMBER OF GOP NEGOTIATING TEAM, TO REGISTER A STRONG PROTEST, NOTING FURTHER THAT THE GOP HAD INFORMED MARCONA THAT PRESS ATTACKS WOULD CEASE. EAST WARNED VELASCO THAT MARCONA WOULD TAKE SERIOUS VIEW IF SUCH ATTACKS CONTINUE.

3. VICE MINISTER ANTONIO TORD TOLD EMBASSY OFFICERS THAT GOP HAS BEEN TALKING DIRECTLY TO THE JAPANESE ABOUT FINANCING OF THE PELLET PLANT EXPANSION. HE DID NOT ELABORATE. HE ALSO SAID THAT MARCONA HAD MADE MISTAKE BY "LEAKING" ITS NEGOTIATING POSITION TO THE PRESS. EMBASSY OFFICERS INFORMED TORD THAT WE UNDERSTOOD THAT IT WAS NOT THE COMPANY, BUT THE MINING COMMUNITY REPRESENTATIVE ON THE BOARD OF DIRECTORS, WHO HAD AUTOMATIC ACCESS TO THE COMPANY'S POSITION, WHO MAY HAVE LEAKED THE DOCUMENT TO THE PRESS. TORD REITERATED THAT THIS WAS A GRAVE MISTAKE, AND THAT THE MINING COMMUNITY REPRESENTATIVE SHOULD NOT HAVE BEEN ALLOWED ACCESS TO THE DOCUMENT. HE NOTED THAT IN THE CASE OF THE CERRO DE PASCO EXPROPRIATION, THE COMPANY WAS ABLE TO KEEP SIMILAR DOCUMENTS FROM FALLING INTO THE HANDS OF HIGHLY-POLITICIZED LABOR REPRESENTATIVES ON ITS BOARD. HE CLEARLY IMPLIED THAT MINES MINISTER JORGE FERNANDEZ MALDONADO SHOULD HAVE BEEN INFORMED BEFORE THE FACT AND COULD HAVE DONE SOMETHING TO AVOID A LEAK. HE SAID THAT THE MINISTRY OF ENERGY AND MINES WAS DUMBFOUNDED WHEN THEY READ THE NEGOTIATING POSITION IN THE PAPERS. HE ALSO IMPLIED THAT

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THE FACT THAT THE NEGOTIATING POSITION IS NOW PUBLIC WILL MAKE IT MORE DIFFICULT FOR THE GOP TO RESOLVE THE BUY-OUT AMICABLY, BUT REITERATED, AS HE HAS DONE PREVIOUSLY, THAT HIS MINISTRY HAS GOOD RELATIONS WITH THE COMPANY AND THAT EVENTUALLY THE ISSUE WILL BE SETTLED TO THE SATISFACTION OF BOTH PARTIES. HE SAID THE GOP HAS HIGH REGARD FOR ROBINSON AND CONSIDERS HIM A FRIEND. TORD STATED CATEGORICALLY THERE WOULD NOT BE ANY SUDDEN NATIONALIZA-

TION, AS OCCURRED WITH THE LOCAL GULF SUBSIDIARY.

4. THE JAPANESE MINISTER COUNSELOR TOLD DCM MAY 16 THAT AMBASSADOR WALTER STUBBS, THE SECOND-RANKING ECONOMIC OFFICER IN THE FOREIGN MINISTRY, HAD RECENTLY FORMALLY REQUESTED GOJ SUPPORT RE MARCONA. STUBBS PRESENTED THREE POINTS TO THE JAPANESE: 1) MARCONA WILL BE NATIONALIZED DURING THE CURRENT YEAR, AND THEREFORE THE GOP WOULD LIKE TO HAVE THE GOJ URGE THE PRIVATE JAPANESE COMPANIES PLANNING TO FINANCE THE PELLET PLANT EXPANSION TO APPROVE THE FINANCING PROMPELY; 2) THE GOP IS CONCERNED ABOUT MAINTAINING ITS IRON-ORE SALES CONTRACTS WITH JAPANESE BUYERS; 3) THE GOP WOULD LIKE THE GOJ TO CONSIDER THE POSSIBILITY OF ESTABLISHING A JOINT SHIPPING COMPANY, USING PRINCIPALLY JAPANESE CARGO SHIPS, TO GUARANTEE THAT ADEQUATE SHIPPING OF THE ORE TO JAPAN WILL BE AVAILABLE. JAPANESE DCM INFORMED US THAT THE GOJ HAS NOT REPLIED TO THE PERUVIANS BUT HAS NO INTENTION OF UNDERCUTTING MARCONA, AND INDIRECTLY THE UNITED STATES GOVERNMENT, BY DEALING DILATORILY WITH THE PERUVIANS UNTIL THE BUY-OUT NEGOTIATIONS ARE COMPLETED. HE ALSO POINTED OUT THAT UNTIL SUCH NEGOTIATIONS ARE COMPLETED AND ACTUAL ECONOMIC COST OF THE PLANT EXPANSION AND TRANSPORTATION IS KNOWN, IT WOULD BE PREMATURE TO ENTER INTO ANY FIRM COMMITMENTS.

5. COMMENT: REPORT OF FIRST NEGOTIATING SESSION IS INDICATION THAT GOP MAY BE PREPARED TO GET DOWN TO BRASS TACKS, AFTER MONTHS OF DELAY. HOWEVER, THERE ARE NUMEROUS ROADBLOCKS, INCLUDING VARIOUS LEFTIST ELEMENTS WHICH WILL PROBABLY CONTINUE TO MOUNT SELECTIVE PRESS ATTACKS ON MARCONA. IT APPEARS THAT GOP TECHNICIANS, SUCH AS TORD, FULLY REALIZE THAT WITHOUT AMICABLE SETTLEMENT PERU WILL END UP WITH A USELESS WHITE ELEPHANT, AND THEY ARE PUSHING

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FOR AGREEMENT. THE JAPANESE RELUCTANCE TO DEAL DIRECTLY WITH THE GOP SHOULD ALSO STRENGTHEN MARCONA'S HAND. HOWEVER, ECONOMIC REALITIES CANNOT BE DISREGARDED, AND IT IS POSSIBLE THE JAPANESE MAY EVENTUALLY PERCEIVE SOME ADVANTAGE IN WORKING DIRECTLY WITH THE PERUVIANS, PARTICULARLY IF THE BUY-OUT NEGOTIATIONS ARE NOT SUCCESSFUL IN THEIR INITIAL STAGES. WE THEREFORE BELIEVE IT WOULD BE USEFUL TO RAISE THE MARCONA QUESTION DURING THE BILATERAL MEETINGS THIS MONTH, AS SUGGESTED IN LIMA 3937.

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